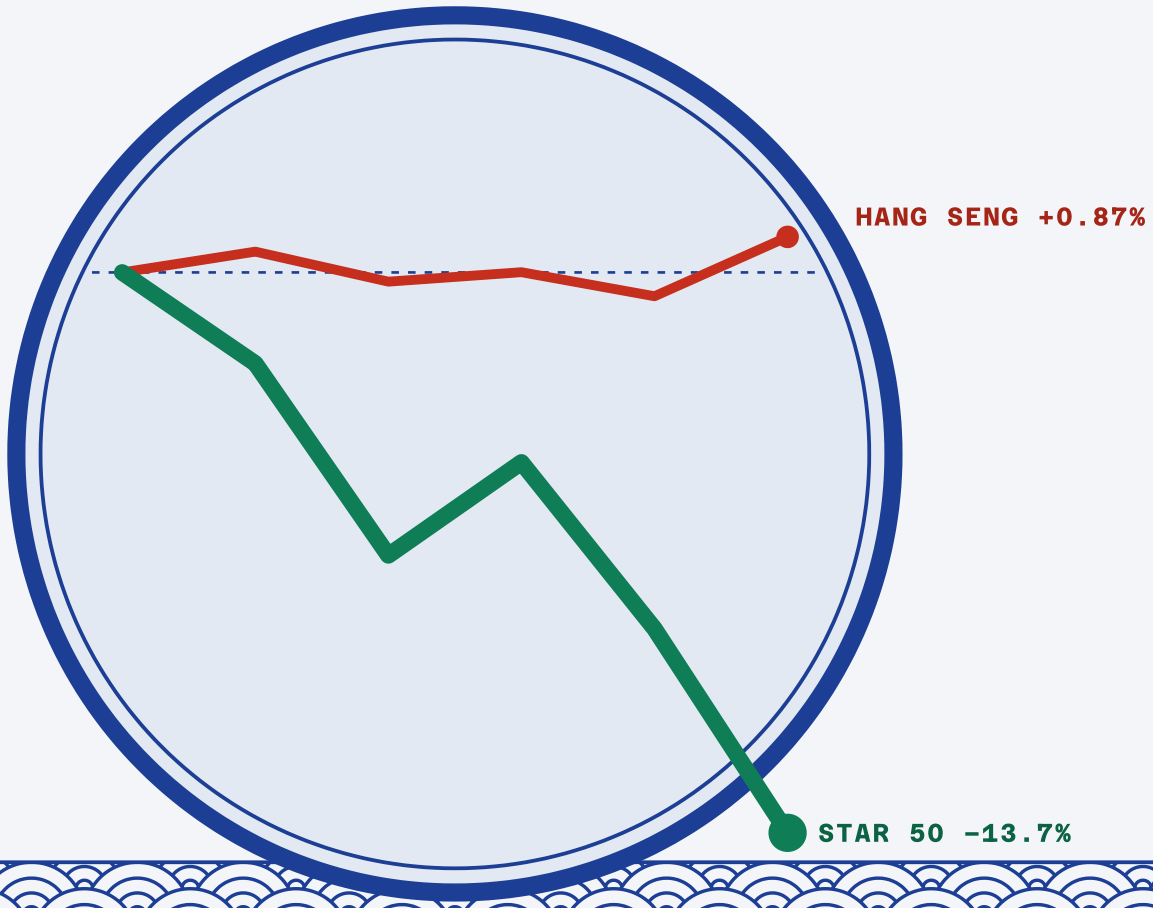
# Exit the Dragon

China's market has been sliding for four months. This week its AI stocks fell more than four times as far as its blue chips.




Inside the gate: the STAR 50 and the Hang Seng, Friday 23 to Friday 30 October, to scale. Red is up, green is down, as on mainland Chinese screens.

TYCHE RESEARCH BY ANKITH

EXECUTIVE SUMMARY

# A slow slide for China's market, a crash for its AI stocks.

**The week.** The CSI 300 fell about 3%, its 12th weekly fall in a row. The STAR 50 fell 13.7%.[4,5,6]

**The slide.** A bear market since 22 October. About $3.5 trillion lost since May.[1,11]

**The bubble.** The STAR 50 still costs about 100 times earnings; the Nasdaq 100 about 30.[12]

**The puzzle.** GDP grew 4.5%, but retail sales grew only 1.1% and property investment fell 20.6%.[18]

**The state.** Its funds sold $67.5 billion of ETFs in January. Now they are the buyer the market waits for.[22,23]

| –13.7% | 12 | $3.5tn | ~100× |
|---|---|---|---|
| STAR 50, THIS WEEK | CSI 300 WEEKLY FALLS IN A ROW | VALUE LOST SINCE MAY | STAR 50 PRICE TO EARNINGS |

UP DOWN

**Read the colours the Chinese way.** On mainland screens red means up and green means down, the reverse of the West. Every chart here does the same.[34]

WHAT TO WATCH NEXT

10 NOVEMBER
### Rare earths
China's pause on export controls ends.[26]

DECEMBER
### The Fed
It held on 28 October; a hike is possible.[25]

MORGAN STANLEY
### –10 to 15%
How much further offshore Chinese stocks could fall.[27]

THE ONE-LINE VERSION

**China's market has been leaking for four months; this week the leak came from AI stocks that still cost three times as much per unit of profit as American tech.**

INTRODUCTION AND CONTEXT

# 01 Twelve weeks down for the blue chips, a crash on the tech board.

**FIG. 1** The week, session by session

| Session | CSI 300 | | Shanghai Composite | | STAR 50 | | Hang Seng | |
|---|---|---|---|---|---|---|---|---|
| Fri 23 Oct | ~4,105 | +1.7% | ~3,690 | +0.9% | 1,346 | | 23,093 | +0.7% |
| **Mon** 26 Oct | 4,104 | −0.03% | 3,698 | +0.2% | 1,316 | −2.2% | ~23,211 | +0.5% |
| **Tue** 27 Oct | 4,050 | −1.3% | 3,648 | −1.3% | 1,252 | −4.8% | 23,041 | −0.7% |
| **Wed** 28 Oct | 4,084 | +0.8% | 3,681 | +0.9% | 1,283 | +2.5% | 23,095 | +0.2% |
| **Thu** 29 Oct | ~4,040 | −1.1% | 3,651 | −0.8% | 1,228 | −4.3% | 22,959 | −0.6% |
| **Fri** 30 Oct | ~3,980 | −1.4% | ~3,600 | −1.4% | 1,161 | −5.5% | 23,294 | +1.5% |
| **The week** | | **~−3.0%** | | **~−2.4%** | | **−13.7%** | | **+0.9%** |

Big number = the day's move; small grey number = the close. Red = up, green = down. ~ = approximate (note on page 06).
Source: Trading Economics, Xinhua, KuCoin, Coinpaper, MarketScreener and others [4 to 10, 28 to 33].

On the 22nd of October 2026, China's stock market went into a bear market. The CSI 300 which is China's main index, closed at 4,036.30 that day, which was 20.2% below its peak on the 22nd of June.[1,2]

EXPLAINER

**CSI 300:** is China's main blue chip index, which tracks the 300 largest companies listed in Shanghai and Shenzhen. It is the closest thing China has to NIFTY 50.

This week the selling kept going on, but not every index fell by the same amount. The CSI 300 fell by roughly 3%, making it 12 weeks in a row, which has been the longest losing streak since the index was created in 2005. However the Hang Seng in Hong Kong actually went up by 0.87%. The STAR 50, where most of China's AI and tech companies like the chip manufacturers are listed, fell by 13.7% in just one week, and a 5.48% crash on Friday alone. This week, China's tech stocks fell more than 4x as much as its blue chips, very similar to how small caps in India fell thrice as much as the NIFTY during Dussehra week.[4,5,6,8]

EXPLAINER

**STAR 50:** is an index of the 50 largest companies on Shanghai's STAR Market, which is a Nasdaq style board for chip, AI and other high tech companies.

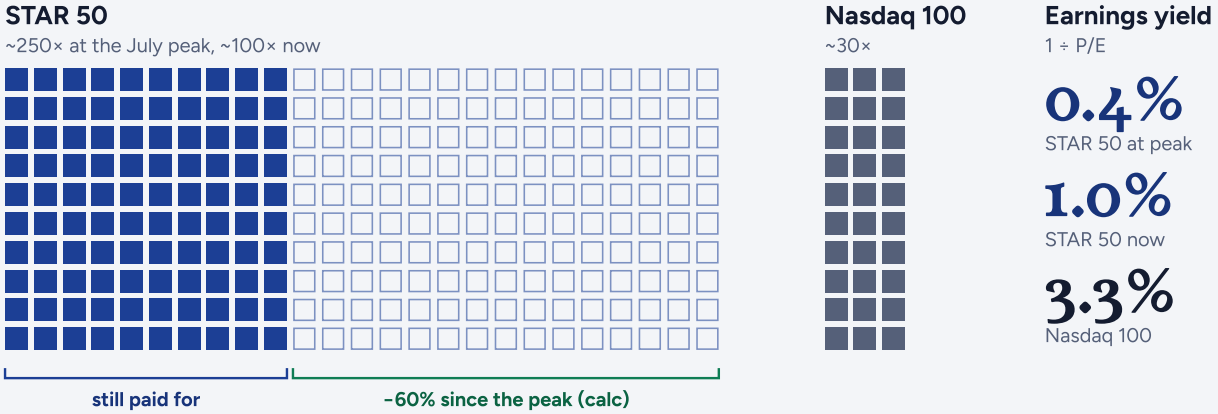
When you look at the broader picture, things aren't looking too good for the Chinese stock market. According to Bloomberg, Chinese stocks, including those listed in Hong Kong, lost around $3.5 trillion since their peak in May, and the STAR 50 is down more than 40% from its July peak.[11,12] According to HSBC, retail investors make up around 90% of the daily trading in China, compared to roughly 20 to 25% in the NYSE; so most of the trading activity pretty much is indicative of the Chinese people's sentiments. Retail investors usually panic and sell much faster than institutions like hedge funds or banks do, which is why Chinese markets are very volatile so much.[1]

**So China didn't crash overnight, it has been falling slowly for four months, and this week most of that fall came from its AI stocks declining.**

HAS CHINA'S AI BUBBLE BURST?

# 02 Earnings went up. What investors pay for those earnings came down faster.

**FIG. 2** How many years of today's profit a share price pays for




One square = one year of today's profit. Earnings yield = 1 ÷ P/E (calc). Source: Reuters, 26 October [12].

According to various analysts, the biggest reason behind this crash has been the AI trade unwinding. China's tech companies started rallying in September 2024, when Beijing promised stimulus, and the rally picked up in January 2025, when DeepSeek released their open source LLM competitor, and the craze for these cheap, open source and hyper efficient models only increased. According to Goldman Sachs, AI companies now make up 42% of the market value of Chinese stocks, and 57% of all the trading. So when AI stocks fall, the rest of the market starts dragging down along with them.[12,13,14]

Why are AI companies failing now? It's because their valuations have skyrocketed with questions about their profitability. At its peak, the STAR 50 was trading at almost 250x its earnings, and even after falling more than 40% it still trades at around 100x, while the Nasdaq 100 trades at around 30x.[12]

EXPLAINER

**Price to Earnings (P/E) Ratio:** is the share price of a company divided by its earnings per share. It tells you how many years of current profits an investor is paying for.

**42%**

AI companies' share of Chinese stocks' market value (Goldman Sachs)[12]

**57%**

AI companies' share of all trading in Chinese stocks (Goldman Sachs)[12]

**~3x**

What STAR 50 buyers pay per unit of profit, against the Nasdaq 100 (calc)[12]

HAS CHINA'S AI BUBBLE BURST? CONTINUED

02

# Strong results, falling shares.

Let's use the analogy of buying a shop. Suppose you buy a shop for ₹100, and it makes ₹1 of profit every year. That is a P/E of 100, which means you earn only 1% a year on your money that you have invested (1/PE Ratio x 100% = 1%). A NASDAQ 100 company at 30x would earn you around 3.3%. So even after a 40% crash, investors in Chinese AI stocks are still paying three times more for every yuan of profit.

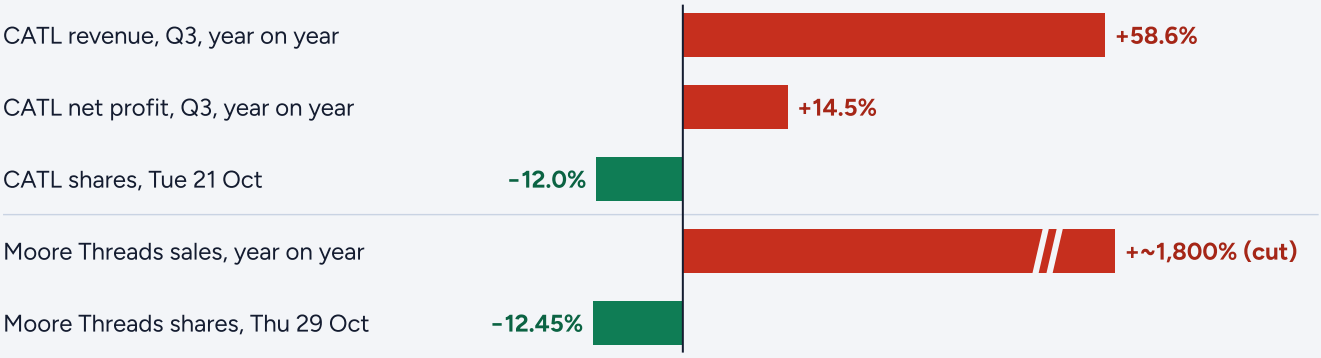
This week showed what happens when earnings go up, but the P/E ratio comes crashing down. AI chipmaker Moore Threads fell 12.45% on Thursday, even though its sales went up almost 1,800% in a year. Battery maker CATL grew its revenue by 58.6% in the third quarter, but its profit only went up 14.5% due to a new tax on lithium batteries, lower export tax rebates and its product mix, and its stock crashed 12% in a single day the week before, on the 21st of October. When a stock is overvalued by this much, no matter how good even the earnings results can be it can still drag down the company's stock price.[15,16,17]

THE SHOP ANALOGY, IN NUMBERS

| ₹100 | ₹1 | 100× | 1% |
|---|---|---|---|
| You pay for the shop | It earns each year | Its P/E: 100 ÷ 1 | Your yearly return: 1 ÷ 100 |

A Nasdaq 100 company at 30× earns about 3.3% a year: about three times as much profit for the same price (calc).

**FIG. 3** **Results up, shares down**

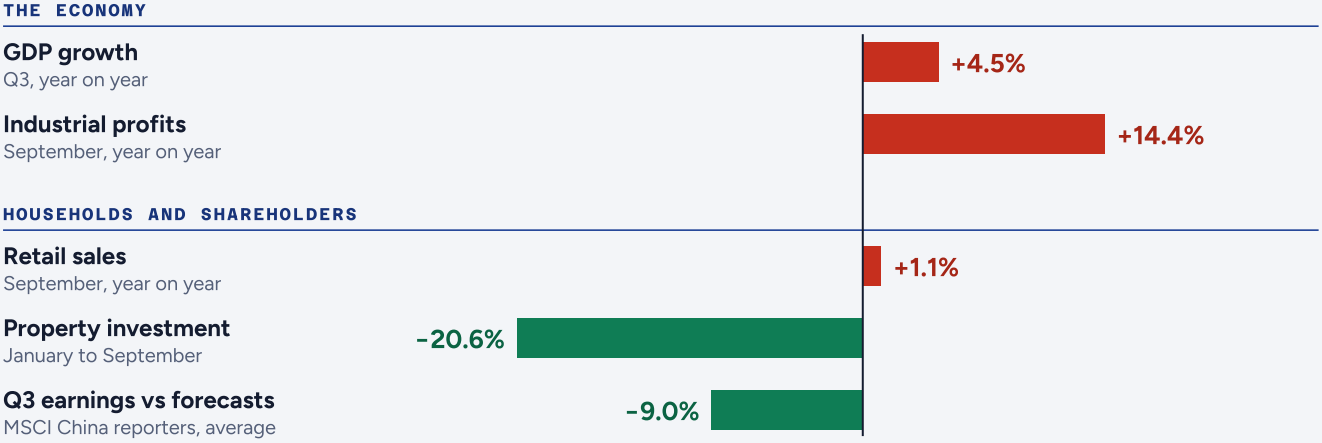



Red = up, green = down. CATL: third quarter 2026 vs a year earlier. Moore Threads' bar is cut to fit. Source: CnEVPost [16,17]; SCMP [15].

A GOOD ECONOMY, BUT A BAD MARKET?

# 03 Factories are earning more. Households and shareholders are not.

**FIG. 4** Good economy, bad market




Red = up, green = down. Source: Babypips [18]; CNBC, citing the National Bureau of Statistics [19]; Bloomberg [11] (earnings miss, MSCI China companies that reported).

What's interesting is that China's economy isn't even doing that badly. Its GDP grew by 4.5% in the third quarter, beating forecasts, and industrial profits went up 14.4% in September. However most of these profits are going to large scale companies like the chipmakers and mining companies, while households are struggling, with retail sales growing just 1.1% and property investment down 20.6% this year.[18,19]

Another reason for this crash could be China's new 20% tax on offshore trusts. The super rich Chinese citizens had until the 22nd of October to pay their past dues. Which happens to be the same day the CSI 300 entered a bear market. Some of them have reportedly been selling their shares to pay these taxes, though there is no official data on how much was sold. This could be another reason which is contributing to the rapid selling of the stock market.[20,21]

**+4.5%**
China's GDP growth in the third quarter, above forecasts[18]

**20%**
The new tax on income from offshore trusts[20,21]

**22 Oct**
The deadline for past dues, and the day of the bear market[1,21]

A GOOD ECONOMY, BUT A BAD MARKET? CONTINUED

# 03 The market now waits for the national team.

**FIG. 5** The state's hand in 2026




Schematic: dates evenly spaced, not to scale. Source: Bloomberg [22,24]; CNBC [1]; Reuters [12]; NTD and IndexBox [20,21]; Finimize [23]; Coinotag [33]; KuCoin [4].

Then there is the "National Team". In January 2026, the state backed fund called Central Huijin reportedly sold around $67.5 billion of ETFs to cool down the AI rally. But now the same National Team is trying to jumpstart the market. On Friday the 23rd, its buying turned a 1.9% fall in the CSI 300 into a 1.7% gain, while on Tuesday the 27th, when it didn't show up in the last hour, the STAR 50 fell close to 5%. The Chinese market has become dependent on whether the government shows up, this could indicate a clear sign that investors have lost their confidence in the country's financial markets.[22,23,24]

EXPLAINER

**National Team:** is the nickname for China's state backed investors, which buy shares (mostly through index funds) to steady the market during sell-offs.

Another thing to keep an eye out for is the US Federal Reserve, which held its rates on the 28th of October but could hike in December. Also China's pause on rare earth export controls ends on the 10th of November. Morgan Stanley has warned that Chinese stocks listed offshore could fall another 10 to 15%, although analysts like Shaun Rein believe "it's a crisis of confidence right now not a crisis in the economy".[1,25,26,27]

**SOURCES** Accessed 29 to 31 Oct 2026. † = seen only as a search summary.

[1] CNBC, bear market, 22 Oct
[2] Yahoo (24/7 Wall St), 24 Oct
[3] pomegra, 11th weekly fall
[4] KuCoin, 12th weekly fall †
[5] Coinpaper, 12-week streak †
[6] Xinhua, STAR 50, 30 Oct †
[7] Xinhua, STAR 50, 29 Oct
[8] MarketScreener, Hang Seng †
[9] BBN Times, Hang Seng †
[10] CEIC, STAR 50 daily †
[11] Bloomberg, $3.5tn rout †
[12] Reuters, AI bubble, 26 Oct
[13] CNBC, tech sell-off, 29 Oct
[14] Decrypt, $2.4tn lost, 28 Oct
[15] SCMP, Moore Threads, 29 Oct
[16] CnEVPost, CATL Q3 †
[17] CnEVPost, CATL shares †
[18] Babypips, Q3 GDP †
[19] CNBC, industrial profits
[20] NTD, trust tax †
[21] IndexBox, trust tax †
[22] Bloomberg, $68bn ETF exit
[23] Finimize, state ETFs, 23 Oct
[24] Bloomberg, final hour †
[25] CNN, the Fed, 28 Oct †
[26] FXStreet, rare earths †
[27] Echoverse, Morgan Stanley
[28] Trading Economics, CSI 300
[29] Trading Economics, Shanghai
[30] Trading Economics, HSI
[31] Bastille Post, 26 Oct
[32] IBTimes, 27 Oct
[33] Coinotag, STAR 50 †
[34] Business Standard, red is up †

Approximate (~) in figure 1: CSI 300 and Shanghai on 23 Oct are calc from reported moves; the CSI 300 on 29 Oct is given as 4,034 to 4,045; both on 30 Oct are calc from the reported −1.4% (one table shows 3,976.22); Hang Seng on 26 Oct is calc. Figures are as publicly reported; interpretation is the author's. Calc = Tyche arithmetic.

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